



**Director of
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Page Denied

Top Secret

Contents

Situation Report

Iran 1

Briefs and Comments

Poland: *Labor Unrest*. 3

[Redacted]

25X1

USSR-US: *Reactions to Presidential Directive*. 6

25X1

Pakistan: *Dispute Between Islamic Sects* 7

Brazil: *Right-Wing Violence* 8

[Redacted]

25X1

Islamic States: *Jerusalem Conference*. 10

[Redacted]

25X1

International: *Oil Consumption*. 12

[Redacted]

Special Analysis

USSR: *Status of the Economy* 13

25X1

[Redacted]

Top Secret

16 August 1980

25X1

Top Secret

SITUATION REPORT

25X1

IRAN

Foreign Minister Ghotbzadeh yesterday told the British charge in Tehran that in the next day or two he would send a "strongly worded letter" to the Islamic Assembly advocating early resolution of the US hostage issue. [REDACTED]

Ghotzbadah said he was well aware that the Islamic fundamentalists would oppose him, but that he hoped his line would, nevertheless, "attract considerable local support." He said immediate action was necessary because Iran is "almost at war" with the USSR and noted that he had "ample evidence" that the USSR "through its local supporters" is involved in "dangerous meddling" in Iran.

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The Foreign Minister, who has consistently been one of the strongest anti-Soviet critics in Iran, will soon give up his position in the government. The letter to the Assembly and his anti-Soviet statement earlier this week may be intended to try to convince Iranians that the foremost threat to the Islamic revolution comes from the USSR.

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According to press reports, about 3,000 demonstrators marched outside the British Embassy yesterday, but were ordered to stay away from the gates by their organizers.

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The Thatcher government, noting that similar threats have been made before, decided yesterday not to give in to Iranian pressure. The case against the militants will proceed normally through the courts. [REDACTED]

London recognizes that the situation is more serious than in the past, although relations between Britain and Iran have been poor since the US hostages were taken. 25X1 Tension has mounted since Prime Minister Thatcher eulogized the Shah, and relations will continue to deteriorate. The British Embassy in Tehran--reduced to a skeleton crew for several months--will not be open today and plans to withdraw the remaining staff will be considered during the next few days. [REDACTED]

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Top Secret

16 August 1980



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[redacted]

BRIEFS AND COMMENTS

POLAND: Labor Unrest

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Spreading labor unrest in and around the Baltic coastal city of Gdansk may soon confront the regime with its most serious political challenge since strikes almost paralyzed Lublin in mid-July. [redacted] 25X1

A strike by 17,000 workers in the Lenin shipyards remains unsettled and apparently has caused sympathy strikes in two other large shipyards and several smaller factories. Local transportation workers in Gdansk and two neighboring cities also have gone on strike. There are rumors that there will be a general strike in Gdansk on Monday. [redacted]

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Workers in the Lenin shipyards--among the most highly paid in Poland--have refused to return to work despite management's willingness to meet most of their demands, including a 12-percent pay increase. The workers, who have locked themselves in the shipyard and have been negotiating with management, reportedly also seek guarantees against reprisals, a reduction in meat prices, publication of their grievances, and a meeting with Premier Babiuch to press demands for a free trade union. [redacted]

The local militia apparently have been mobilized and have cordoned off areas around the shipyards, but have been held back from direct contact with the strikers. Given the violent riots that occurred in Gdansk in 1970, any contact between workers and militia could lead to serious violence even though the militia probably are not armed. Violence in Gdansk might lead to protests in other parts of the country. [redacted] 25X1

The regime has thus far continued the conciliatory approach that has carried it through six weeks of strikes and work slowdowns. Articles and commentary in the central media yesterday appealed to patriotism and self-restraint to get workers in Gdansk back on the job. Although such appeals have been effective in the past, they may have lost some of their impact during the prolonged period of labor unrest. [redacted] 25X1

If the workers in Gdansk refuse to back down on their politically unacceptable demands for a free trade union, the leadership will be under pressure to take a [redacted] 25X1

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tougher stance. During his just ended Crimean vacation, Gierek may have been counseled by the Soviets to become more aggressive. [REDACTED]

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Babiuch, in a speech to the nation yesterday, injected a note of toughness into Warsaw's conciliatory line. He warned the workers that they must return to work and that their actions are being exploited by "enemies" of Communist Poland. Babiuch also said that the meat price increases in July will not be rescinded and that meat supplies will not improve. He promised, however, that meat prices will remain frozen until the fall of 1981. [REDACTED]

25X1

Top Secret

16 August 1980

25X1

Page Denied

Top Secret

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USSR-US: Reactions to Presidential Directive

Soviet propagandists have moved quickly to integrate Presidential Directive 59 into existing anti-US themes, striving in particular to raise doubts in Western Europe about US motives in deploying modernized long-range theater nuclear forces.

Under the familiar rubric of an alleged US drive to regain military primacy, Soviet commentators are characterizing the directive as a new strategy to achieve a nuclear first-strike capability. Lev Semeyko, a veteran commentator on military affairs, extended this interpretation in the military journal *Red Star* by claiming that Washington is working toward a "first-strike potential" on the "European level" as well. The head of the Central Committee's International Information Department, speaking with West Germans in Moscow on the 10th anniversary of the Soviet - West German treaty last Tuesday, said that the directive "reveals . . . why the US in reality sought deployment in Europe of cruise missiles and Pershing II missiles."

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Pravda's senior political observer, Yuri Zhukov, reiterated this line on Wednesday and contrasted the "dangerous" US plan to ride out in safety a local nuclear war in Europe with Soviet proposals to negotiate "as soon as possible" on medium-range missiles in Europe in conjunction with US "forward-based nuclear means."

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Some commentators, including Semeyko, have noted that the strategy embodied in the directive is not an abrupt departure from previous US doctrine, citing antecedents from 1974 and earlier. The Soviets are resurrecting warnings they issued at that time to the effect that attempts to entertain the "illusory possibility" of limited nuclear wars "lowers the threshold of nuclear confrontation."

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Top Secret

16 August 1980

Top Secret

25X1

PAKISTAN: Dispute Between Islamic Sects

Differences between the two main Islamic sects in Pakistan continue to fester, despite an agreement last month between President Zia, who belongs to the Sunni majority, and leaders of the Shia minority. [redacted]

Following a Shia demonstration on 5 July against imposing religious taxes in accord with Sunni theology on Shias, Zia promised that the rules of one Islamic sect would not be imposed on another. Many Sunnis are critical of Zia for giving in to the Shias and are angered by the prospect of paying taxes from which Shias will be exempt. One Sunni extremist organization demands Zia ban Shia prayers and processions. [redacted]

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The Shias believe that the money, which is to be used for charity, will go primarily to Sunnis. They fear that Zia's ultimate goal is to turn Pakistan into a Sunni state. [redacted]

Pakistan's most important Muslim allies--Sunni Saudi Arabia and Shia Iran--also could become involved in the dispute. The Saudis so far do not appear to have raised the dispute with Islamabad, but members of the Saudi royal family contributed \$200 million to start the charitable funds the taxes are to support. [redacted]

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The recent increase in Iranian support for the Pakistani Shias reflects the growing political role of the clerical leadership in Tehran. The Iranian press has kept up its attacks on Zia, and there was another demonstration at the Pakistani Embassy on Wednesday. [redacted]

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Top Secret

16 August 1980

Top Secret

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BRAZIL: Right-Wing Violence

A recent surge of right-wing extremist activity aimed at disrupting liberalization could, if sustained, cause political problems for the government. [redacted]

The attacks began last month when a prominent human rights activist was beaten during the visit of Pope John Paul II. Since then, sporadic shootings and bombings have been directed at leftist politicians and labor leaders, and newsstands selling leftist publications have been burned. [redacted]

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Several ultraconservative organizations claim responsibility for most of the violence. They oppose the government's policy of gradual political liberalization and the left's increasing visibility. They may hope either to intimidate the left or to provoke it into more open agitation which would invite a tougher government response. [redacted]

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The Justice Minister publicly repudiates the violence and maintains that the attacks will not affect liberalization. His assertions have been met with skepticism, however, because no arrests have yet been made and because local authorities are not pursuing the investigations vigorously. [redacted]

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Many Brazilians believe the lack of results stems from the fact that members of Army security forces are among the culprits. [redacted]

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[redacted] The government's failure to act is damaging its already delicate credibility in this case. If the attacks continue, there would be a greater likelihood that leftist groups may turn to violence themselves. [redacted]

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Top Secret

16 August 1980

Page Denied

Top Secret

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ISLAMIC STATES: Jerusalem Conference

Members of the Islamic Conference Jerusalem Committee meet today in Morocco in a special session called to discuss strategy for countering Israel's recent action reaffirming its claim to sovereignty over all of Jerusalem. Moderates led by Saudi Arabia and Morocco will probably push for approval of the recent Iraqi-Saudi call for sanctions against those countries maintaining embassies in Jerusalem or endorsing the Israeli move. Saudi Crown Prince Fahd's highly publicized comments earlier this week contain an implied warning that Saudi patience with the US is wearing thin on this issue.

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Top Secret

16 August 1980

Page Denied

Top Secret

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INTERNATIONAL: Oil Consumption

Oil consumption in the seven major industrialized countries continued to decline in the second quarter of this year as higher prices, fuel substitution, and the economic slowdown cut oil usage roughly 5 percent from the same period in 1979. Italy was the only individual country where continued strong economic activity in the second quarter helped push oil sales above last year's level. Light and heavy fuel oil demand dropped sharply in most countries, but only the US and Japan had large declines in gasoline usage.

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Top Secret

16 August 1980

Top Secret

SPECIAL ANALYSIS

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USSR: Status of the Economy

The Soviet economy has made a poor showing during the first half of the year. Although prospects are good for a better-than-average grain crop, a below-average harvest of most other major crops and declining meat output will prevent any rebound in agriculture this year. With continued slow growth also anticipated in industrial output, the energy situation deteriorating, and bottlenecks in transportation and construction continuing, GNP will likely grow less than 3 percent in 1980.

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As of early this month, we estimate a Soviet grain crop in 1980 of about 210 million tons--a marked recovery from the 179 million-ton crop of last year. Despite the favorable prospects for grain, Soviet farm production probably will decline somewhat this year.

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Production of meat and dairy products is being held back by inadequate quantity and quality of livestock feed, the legacy of poor harvests last year. The outlook for meat production is particularly gloomy. Based on our estimate of a 1980 grain harvest, total meat output for 1980 will drop about 2 to 3 percent from 1979 production to 15-15.2 million tons, the same level as in 1975.

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Even with an above-average grain harvest, the Soviet need for grain imports will remain high. The US embargo has stretched domestic feed supplies to the limit, and the late spring reduced access to early pastures and slowed development of forage crops. If the USSR makes no more than marginal cuts in current livestock herds and postpones rebuilding depleted grain stocks, about 240 million tons of grain will be needed to meet total domestic requirements.

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Industry Still Lagging

Industrial production was nearly 4 percent higher 25X1
in the first half of 1980 than in the first half last
year. Gains this year in a number of industrial sectors,
however, barely recouped actual drops in output last
year. []

In addition, lower than expected output of steel,
coal, and cement will limit growth in the months ahead.
For the year, we expect civilian industrial output to
increase only about 3 percent--slightly better than the
post-war low of 1.8 percent recorded last year. [] 25X1

Energy Problems

The Soviet energy situation continues to deteriorate.
Energy production during the first six months of 1980
rose 3 percent above that in the corresponding period in
1979--far short of the planned 4.4 percent increase for
1980. Fuel allocations to a number of industrial enter-
prises have been reduced in recent months, and spot short-
ages continue to be reported. [] 25X1

During the first half of this year, Soviet oil pro-
duction averaged about 11.9 million barrels per day.
This was 3.5 percent more than first half 1979, but less
than a 1 percent increase over second half 1979. [] 25X1

Coal output for the first half of 1980 was down
1 percent from the corresponding period of 1979. For the
year, coal production is unlikely to exceed 725 million
tons--20 million tons short of the current target. [] 25X1

Gas remains the one bright spot in the energy pic-
ture. Even though gas production in the first six months
of this year was slightly behind plans, the target of
15.4 trillion cubic feet probably will be met as gas
demand and production pick up in the fourth quarter. [] 25X1

The failure of the energy sector to meet its goals
apparently has caused Moscow to increase conservation

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Top Secret

16 August 1980

Top Secret

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efforts. In the annual resolution by the Council of Ministers on stockpiling supplies of winter fuel, specific targets for energy conservation were included for the first time. The specific goals for conservation this year may be an indirect effort to ration the available energy supplies. []

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Consumer Blues

The outlook for the Soviet consumer in 1980 is particularly gloomy. The 2 to 3 percent drop in Soviet meat production this year will depress per capita meat production to the level of the early 1970s. Shortages of livestock feed have led to reductions in supplies of butter and milk. []

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[] Soviet consumers are obsessed with the food situation. The recent strikes at the Togliatti and Gorkiy motor vehicle plants involved longstanding discontent over work-related issues, but apparently were touched off by food shortages. The protests were settled quickly when the authorities brought in fresh food and other supplies. []

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Moscow's Reactions

Recent Soviet press reports have stated that the comparatively low rate of industrial growth achieved was to be expected given the mature state of the economy. The leadership is aware, however, that the economy will have trouble recovering in the second half of the year. []

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Moreover, speeches by Soviet leaders in recent months--while containing traditional exhortations for increased production--have placed much greater emphasis on the need for conservation. Besides the recent resolution on energy conservation, the Council of Ministers decreed in May that less metal should be used in industry. Although couched in terms of efficiency, the emphasis on conservation reflects Moscow's failed hopes for large gains in energy and raw materials production in the short term. []

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